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Fiscal Risks

Introduction

This chapter describes the fiscal risks to the Government, including changes to the fiscal forecasts, specific fiscal risks, and contingent liabilities.

Legislative Requirements

Public Finance Act 1989 Requirements

The Public Finance Act 1989 (PFA) requires an economic and fiscal update to incorporate, to the fullest extent possible consistent with the limits on disclosure requirements set out below, all government decisions and other circumstances that may have a material effect on the fiscal and economic outlook. If the fiscal implications of government decisions and other circumstances can be quantified for particular years with reasonable certainty, these fiscal implications must be included in the forecast financial statements. If the fiscal implications of government decisions and other circumstances cannot be quantified for particular years with reasonable certainty, those government decisions or other circumstances must be disclosed in the statement of specific fiscal risks.

The PFA requires the Minister of Finance and the Secretary to the Treasury to sign a statement of responsibility for each economic and fiscal update that:

- the Minister of Finance has communicated to the Secretary to the Treasury before the economic and fiscal update is finalised, all policy decisions with material economic or fiscal implications that the Government has made, and all other circumstances with material economic or fiscal implications of which the Minister is aware, and
- the Secretary to the Treasury has incorporated in the economic and fiscal update the fiscal and economic implications of those decisions and other circumstances, using the Treasury's best professional judgement (on the basis of the economic and fiscal information available to the Treasury on the day before the economic and fiscal update was finalised).

The PFA also requires the statement of specific fiscal risks of the Government to disclose the rules used to determine what is and what is not a specific fiscal risk.

GAAP Requirements

The PFA requires that the fiscal forecasts must be prepared in accordance with generally accepted accounting practice (GAAP).

FRS-42 *Prospective Financial Statements* provides guidance for preparing fiscal forecasts. The general principle of the standard is that forecasts should be prepared using the best information that is reasonable and supportable. To ensure the accuracy of the fiscal forecasts the forecast assumptions are:

- based on the best information that could be reasonably expected to be available at the time the forecasts are prepared (eg, latest economic conditions)
- consistent with the current plans of the Government (eg, include current policies and other policies the Government are considering), and
- have a reasonable and supportable basis (eg, events are probable and measurable).

There will always be an element of judgement surrounding the assumptions that are made in preparing the fiscal forecasts. To provide a more comprehensive picture of the fiscal position FRS-42 also requires disclosure of factors that may lead to a material difference between the forecasts and the actual results. This includes matters such as new policies the Government may be considering and sensitivity around key assumptions (eg, economic conditions).

Criteria and Rules for Disclosure in the Fiscal Forecasts or as Specific Fiscal Risks

The criteria used in previous economic and fiscal updates to determine if matters were disclosed as specific fiscal risks were based around a materiality level of $10 million in any one year and whether or not the matter was being actively considered by Ministers. The Treasury has reviewed the criteria and rules for the disclosure of matters in the fiscal forecasts or as specific fiscal risks. As a result, the “under active consideration” criterion has been replaced by an assessment of the likelihood of a matter being approved or occurring within the forecast period, and the degree of certainty with which the matter can be quantified.

Matters are considered against the criteria and rules set out below to determine if they are to be incorporated into the fiscal forecasts, disclosed as specific fiscal risks, or in some circumstances excluded from disclosure.

Criteria for including matters in the fiscal forecasts

Matters are incorporated into the fiscal forecasts provided they meet all of the following criteria:

- The quantum is more than $10 million in any one year.
- The matter can be quantified for particular years with reasonable certainty.

- A decision has been taken; or a decision has not yet been taken, but it is reasonably probable[2] the matter will be approved, or it is reasonably probable the situation will occur.

Additionally, any other matters may be incorporated into the forecasts if the Secretary to the Treasury considers, using his or her best professional judgement, that the matters may have a material effect on the fiscal and economic outlook and are certain enough to include in the fiscal forecasts.

Rules for the disclosure of specific fiscal risks

Matters are disclosed as specific fiscal risks if:

- the likely cost is more than $10 million in any one year, and either
- a decision has not yet been taken, but it is reasonably possible[3] (but not probable) that the matter will be approved or the situation will occur, or
- it is reasonably probable that the matter will be approved or the situation will occur, but the matter cannot be quantified for or assigned to particular years with reasonable certainty.

Additionally, any other matters may be disclosed as specific fiscal risks if the Secretary to the Treasury considers, using his or her best professional judgement, that the matters may have a material effect (more than $10 million in any one year) on the fiscal and economic outlook, but are not certain enough to include in the fiscal forecasts.

Exclusions from disclosure

Matters are excluded from disclosure as specific fiscal risks if they fail to meet the materiality criteria (ie, are less than $10m in any one year), or if it is not reasonably possible they will be approved or occur within the forecasting period.

Additionally, the Minister of Finance may determine that an item included in the fiscal forecasts or a specific fiscal risk not be disclosed, if such disclosure would be likely to:

- prejudice the substantial economic interests of New Zealand
- prejudice the security or defence of New Zealand or international relations of the Government
- compromise the Crown in a material way in negotiation, litigation or commercial activity, or
- result in a material loss of value to the Crown.

Furthermore, the Minister of Finance has to determine that there is no reasonable or prudent way the Government can avoid this prejudice, compromise or material loss by making a decision on the fiscal risk before the finalisation of the forecasts, or by disclosing the forecast item or fiscal risk without reference to its fiscal implications.

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[2] For these purposes "reasonably probable" is taken to mean that the matter is more likely than not to be approved within the forecast period (by considering, for example, whether there is a better than 50% chance of the matter occurring or being approved).

[3] For these purposes "reasonably possible" taken to mean that the matter might be approved within the forecast period (by considering, for example, whether there is a 20% to 50% chance of the matter occurring or being approved).

Information Relating to all Disclosed Risks

Allowances for additional operating and capital spending in future Budgets are incorporated into the fiscal forecasts. From Budget 2010 the operating allowance will be $1.1 billion per Budget (grown forward at 2% per annum) and the capital allowance will be $1.45 billion per Budget from 2010 to 2012, increasing to $1.65 billion in Budget 2013.

The risks outlined in this chapter, should they eventuate, would only have an effect on the operating balance and/or net debt to the extent that they could not be funded from within the allowances, by reprioritising existing expenditure, or through third party funding.

Policy options for many risks require further development, and the quantum of the risk is often uncertain. Consequently, the final cost or saving may differ from the amounts disclosed in this chapter.

Changes to the Fiscal Forecasts

The PFA requires that if the fiscal implications of government decisions and other circumstances can be quantified for particular years with reasonable certainty, these fiscal implications must be included in the forecast financial statements. This applies irrespective of whether or not a decision has been taken by the Government to provide additional funding for the matter.

Based on the criteria outlined on pages 98 and 99 above it is probable that additional funding for the matters listed below will be approved by the Government during the forecast period. Consequently, these matters have been incorporated into the fiscal forecasts as potential charges against the operating allowances for future Budgets.

ACC Non-Earner's Account

ACC updated its scheme valuation as at 31 December 2008 and has advised of potential changes to the Non-Earner's Account baselines in 2009/10 and outyears.

Budget to be charged ($million)	2009/10	2010/11	2011/12	2012/13
Budget 2010	86.752	61.977	54.160	97.778

There is also a specific fiscal risk for further changes in ACC, beyond the revaluation shown above.

Revenue – Changes to the July 2008 tax bill

The Finance and Expenditure Select Committee is currently considering changes to the July 2008 tax bill, including changes recommended by officials. Although the cost of the Committee's final recommendations is unknown, there is a high probability that the changes recommended to the Committee for inclusion in the version of the Bill to be reported back to Parliament will be adopted.

Budget to be charged ($million)	2009/10	2010/11	2011/12	2012/13
Budget 2010	(15.200)	16.000	17.000	18.000

Specific Fiscal Risks

The matters listed below are disclosed as specific fiscal risks as they meet the rules for disclosure outlined on page 99 above.

Quantified and unquantified risks are listed separately. Within each list the risks have been categorised as new or changed/unchanged since the last economic and fiscal update.

Risks are unquantified if the amount of the risk is unknown, or if the matter is partially disclosed as an unquantified risk (as full disclosure would be likely to prejudice New Zealand's substantial economic interests, security, defence or international relations; or compromise the Crown in a material way in negotiation, litigation or commercial activity; or result in a material loss of value to the Crown).

In previous economic and fiscal updates some matters have been disclosed as time-limited funding in order to increase transparency about initiatives with funding profiles that cease or decrease during the forecast period and that may potentially be extended. The changes that have been made to the criteria for disclosure of matters as specific fiscal risks have negated the need to separately disclose time-limited funding. Matters that would previously have been disclosed as time-limited funding are disclosed within the specific fiscal risks listed below.

Fuller descriptions of the risks listed below are included on pages 109 to 123.

Quantified Risks

If they were to eventuate the risks outlined in these tables would, to the extent that they cannot be funded from future Budget allowances, by reprioritising existing expenditure, or through third party revenue, impact the Government's forecast financial position (as indicated in the table below).

A negative fiscal impact means an increase in net debt and possibly an increase in the deficit in the operating balance.

Quantified risks as at 5 May 2009	Impact on fiscal position	Value of risk ($million)
New risks		
Corrections – Community Probation and Psychological Services	Negative	30 operating per annum and 72 capital
Economic Development – Broadband Investment Initiative	Negative	1,210 capital
Education – Early Childhood Education Funding	Negative	63 operating between 2009/10 and 2012/13
Education – Early Childhood Education Ratio Changes	Negative	55 operating per annum
Education – IT Broadband Funding	Negative	116 capital
Education – School Operational Grants	Negative	70 operating between 2009/10 and 2012/13

Quantified risks as at 5 May 2009	**Impact on fiscal position**	**Value of risk ($million)**
Education – School Staffing Entitlements	Negative	45 operating in 2011/12 and 50 in 2012/13 and outyears
Education – Trades Academies	Negative	10 to 20 capital
Education – Youth Guarantee	Negative	65 operating per annum
Education, Social Development and Revenue – Medical Training Places	Negative	11 operating and 3 capital per annum by 2012/13, growing beyond the forecast period
Finance – Crown Retail Deposit Guarantee Scheme	Negative	650 to 700 operating
Health – Additional WellChild Visits	Negative	15 operating per annum
Health – Building Dedicated Elective Theatres	Negative	20 operating in 2010/11, 40 operating per annum from 2011/12 and 36 capital
Health – Funding Increase for Subsidised Medicines	Negative	60 operating in 2010/11, and 80 operating per annum from 2011/12
Health – Payment of Family Caregivers	Negative	Up to 600 operating per annum
Health – Sector Capital	Negative	150 to 400 capital
Housing – Gateway Housing	Negative	60 to 96 capital between 2009/10 and 2012/13
Immigration – Redevelopment of Mangere Refugee Centre	Negative	5 operating, 24 capital one-off
Police and Corrections – Property and Flow-on Impacts of Additional Police Staff	Negative	20 operating and 64 capital between 2011/12 and 2012/13
Revenue – Aligning PIE Rates with New Personal Tax Rates	Negative	20 operating per annum
Revenue – Bad Debt Write-offs Relating to Crown Debt Administered by Inland Revenue	Positive or Negative	75 capital
Revenue – GST – Business to Business Transactions	Positive	50 operating per annum
Revenue – Impairment of Crown Debt Administered by Inland Revenue	Positive or Negative	200 capital increase to 50 capital decrease
Revenue – Reinstatement of Deferred Tax Cuts	Negative	900 operating per annum
Revenue – Student Loan Early Repayment Bonus	Positive or Negative	75 operating increase to 189 operating decrease
Revenue – Tax Consequences of Residential Mortgage Backed Securities	Positive or Negative	100 operating per annum
Revenue and Social Development – Impairment of Debt Relating to Student Loans	Positive or Negative	500 capital
Social Development – Increasing the Abatement-free Income Threshold	Negative	27 operating per annum
Transport – Auckland Metro Rail	Negative	500 capital
Transport – New Zealand Railways Corporation Operating Support	Negative	Up to 90 in 2010/11 and outyears

Quantified risks as at 5 May 2009	Impact on fiscal position	Value of risk ($million)
Changed risks		
Corrections – Prison Construction	Negative	284 operating per annum by 2018/19 and 1,566 capital between 2009/10 and 2017/18
Customs – Joint Border Management System Replacement	Negative	31 operating per annum and 121 capital
Housing – Tamaki	Negative	320 operating and 1,200 capital
Immigration – Immigration Business Transformation	Negative	107 operating between 2009/10 and 2012/13 and 22 operating per annum from 2013/14
New Zealand Defence Force – Future Operationally Deployed Forces Activity	Negative	30 operating per annum from 2010/11
New Zealand Defence Force – Sale of Skyhawks and Aermacchi Trainers	Positive	170 capital
Police – Digital Radio Network Full Implementation	Negative	76 operating and 150 capital
Unchanged risks		
Finance – Crown Overseas Properties	Negative	150 capital between 2009/10 and 2013/14
Justice – Greater Auckland Region Service Delivery Strategy	Negative	265 operating or capital

Unquantified Risks

If they were to eventuate the risks outlined in these tables would, to the extent that they cannot be funded from future Budget allowances, by reprioritising existing expenditure, or through third party revenue, impact the Government's forecast financial position (as indicated in the table below).

A negative fiscal impact means an increase in net debt and possibly an increase in the deficit in the operating balance.

Unquantified risks as at 5 May 2009	**Impact on fiscal position**
New risks	
ACC – Revaluation of Outstanding Claim Liability	Negative
Education – Additional Funding for School Property	Negative
Education – Early Childhood Education Participation	Negative
Education – Integrated School Property	Negative
Finance – Government Commitments to International Financial Institutions	Negative
Finance – KiwiSaver	Positive or Negative
Finance – New Zealand Superannuation Fund	Positive or Negative
Finance – Potential Merger of Lincoln University and AgResearch	Negative
Health – Caregiver Employment Conditions	Negative
Health – Demographic and Cost Pressures	Negative
Health – National Systems Development Programme	Negative
Health – Purchase of Pandemic Strain Vaccine	Negative
Justice – Review of the Legal Aid System	Positive or Negative
New Zealand Defence Force – Defence Review 2009	Negative
Revenue – Base Maintenance and Broadening	Positive
Revenue – Cash Held in Tax Pools	Negative
Revenue – Charitable Giving	Negative
Revenue – Child Support – Shared Care	Negative
Revenue – Imputation	Negative
Revenue – Inland Revenue Operations	Positive or Negative
Revenue – International Tax Review	Negative
Revenue – Mutual Recognition and the Australian Tax Review	Negative
Revenue – Potential Tax Policy Changes	Positive or Negative
Revenue – Resident Withholding Tax Alignment	Negative
Revenue – Revenue Implications of Recommendations from the Capital Market Development Taskforce	Positive or Negative
Revenue – Revenue Implications of Recommendations from the Jobs Summit	Positive or Negative
Revenue – Tax treatment of Social Assistance Programmes	Positive

Unquantified risks as at 5 May 2009	**Impact on fiscal position**
Reviews of the Delivery of Public Services	Positive
Risks to Third Party Revenue	Negative
Social Development – Extending Part-time Work Obligations	Positive
State Sector Employment Agreements	Negative
Treaty Negotiations – Office of Treaty Settlements Landbank	Negative
Changed risks	
Climate Change – International Climate Change Obligations and the Review and Implementation of the Emissions Trading Scheme	Positive or Negative
Education – Te Whare Wānanga o Awanuiārangi	Negative
Health – District Health Board Deficits	Negative
Revenue – Investment in the Tax System and Related Business	Positive
Revenue – Rebuild of the Student Loan IT System	Positive
Revenue – Reducing Compliance Costs for SMEs	Negative
Revenue – Renegotiation of Double Tax Agreements	Negative
Unchanged risks	
Economic Development – Radio Spectrum Rights	Positive

Risks Removed Since the 2008 Pre-Election Economic and Fiscal Update

The following risks have been removed since the 2008 *Pre-Election Economic and Fiscal Update:*

Expired risks	Reason
Agriculture and Forestry – New Zealand Fast Forward Fund	The fund has been replaced by the Primary Growth Partnership.
Economic Development – Implementation of the New Zealand Tourism Strategy	Superseded by new government policy.
Economic Development – Trilateral Projects	Superseded by new government policy.
Economic Development – Venture Investment Fund	Superseded by new government policy.
Education – Caretakers, Cleaners and Ground-staff Negotiations	Funding provided in Budget 2009 for the caretakers, cleaners and ground-staff collective agreement.
Education – Schools Plus	Superseded by new government policy.
Education (Tertiary) – Vocational Training	Superseded by new government policy.
Energy – ETS Household Assistance Package	Superseded by new government policy.
Fisheries – Civilian Maritime Aerial Surveillance	Superseded by new government policy.
Housing – Housing Innovation Fund	Superseded by new government policy.
Health – Indicative Funding for Budgets 2009 and 2010	The Government has decided to not set an indicative allocation for Budget 2010.
Housing – Affordable Home Ownership	This risk has been incorporated in the Gateway Housing risk to address affordable home ownership.
Internal Affairs – Property Strategy	Superseded by new government policy.
Justice – Financial Action Taskforce Recommendations	A tagged contingency has been set aside for this matter in Budget 2009.
Justice – Supreme Court Construction Cost Pressures	Funding provided in 2008.
Justice Sector and Other Agencies – Effective Interventions	Superseded by new government policy.
Local Government – Response to Rates Inquiry	Superseded by new government policy.
New Zealand Agency for International Development – Adjustment of Official Development Assistance Fund	The Government has decided that future funding increases would not be based on a set percentage of Gross National Income.
Police – Increases to Police Staff	Superseded by new government policy.
Revenue – Paid Parental Leave Review	Superseded by new government policy.
Social Development – Children, Young Persons and their Families Act	Superseded by new government policy.
Social Development – Energy Subsidy for SuperGold Card Holders	Superseded by new government policy.

Expired risks	Reason
Social Development – Five-year Action Plan for Out of School Services	Superseded by new government policy.
Social Development – Working New Zealand: Work-focused Support	Superseded by new government policy.
Social Development – Youth Court Sentencing Orders	This matter has been superseded by the Government's fresh start policy.
Transport – Waterview Connection, risk of not tolling project	The Government has decided that if this project proceeds it will be funded through the National Land Transport Fund.
Transport – Canterbury Transport Project	The Government has decided to not fund the remainder of this project.
Transport – Penlink Roading Project	The Government has decided that if this project proceeds it will be funded through the National Land Transport Fund.
Transport – Waterview Connection	The Government has decided that if this project proceeds it will be funded through the National Land Transport Fund.

Statement of Specific Fiscal Risks

Accident Compensation Corporation – Revaluation of Outstanding Claim Liabilities (new, unquantified risk)

The ACC Chair has stated that ACC's liability for future claims appears to be significantly understated because the underlying assumptions are uniformly optimistic. The liability could increase when those assumptions are next reviewed and updated.

Climate Change – International Climate Change Obligations and the Review and Implementation of the Emissions Trading Scheme (changed, unquantified risk)

The Emissions Trading Scheme (ETS) is under review. Owing to this review, and emissions trading policy priorities of the Government, it is probable that some changes will be made.

For instance, delaying entry of sectors into the ETS, changing the ETS forestry rules, increasing the levels of free allocation or providing other forms of compensation all would come with some fiscal cost to the Government.

Notwithstanding policy changes, there is inherent uncertainty in the level of fiscal impact the ETS and Kyoto obligation place on the Government. For instance, carbon prices can change and levels of net-emissions and the amount of uptake of post-1989 forest owners into the ETS are uncertain. Changes in these forecasts and assumptions may mean that the Government will have to purchase Kyoto Protocol emission units before 2015 to meet article 3.1 of the Kyoto Protocol.

Currently there is no obligation recognised in the Government's accounts for any possible post-2012 International Climate Change agreement given the Government has yet to ratify any such agreement, and given there are high levels of uncertainty around its nature and size. It is possible that the Government will enter into a post-2012 agreement within the forecast period. This will need to be recognised at the time of signing, as will any related ETS revenues and expenses (currently there is no net ETS fiscal impact in the forecast and projections post-2012). Accounting policy in this area is also subject to change.

Corrections – Community Probation and Psychological Services (new, quantified risk)

The number of offenders being managed by Community Probation and Psychological Services (CPPS) has grown significantly in recent years. Funding received in Budget 2009 will enable CPPS to manage the estimated volume of offenders based on annualising year-to-date actual volumes to December 2008. The Department of Corrections has not estimated any growth beyond these levels, so there is a risk that offender volumes over the forecast period will exceed funded levels. It is estimated that a 5% per annum cumulative increase in offender volumes would result in additional operating costs of $30 million per annum by 2012/13, and total additional capital expenditure of $72 million over the forecast period.

Corrections – Prison Construction (changed, quantified risk)

The Government is considering options to address forecast growth in the prison population. The Department of Corrections faces significant prison capacity demands over the next 10 years, and has developed a plan to respond to this demand by increasing prison capacity and replacing obsolete capacity. If the Government's chosen response to the growth in the prison population is to increase prison capacity, it is estimated that this would cost up to $1.566 billion capital over the next nine years, and up to $284 million operating per annum by 2018/19.

Customs – Joint Border Management System Replacement (changed, quantified risk)

Customs' border management systems (CusMod) are over 10 years old. Customs received funding in Budgets 2007 and 2008 to develop a business case for replacement systems. In accordance with the two-stage approval process for major information technology projects, funding for the CusMod replacement is dependent on approval of the two business cases. The second business case is scheduled to be considered by Cabinet prior to the end of 2009. The indicative total cost of the project is $121 million capital over five years and up to $31 million operating per annum (excluding $7 million capital charge).

Economic Development – Broadband Investment Initiative (new, unquantified risk)

The Government has committed to spend $1.5 billion on a new broadband network delivering "ultra fast" broadband services. Of this amount, $290 million has been appropriated through Budget 2009. The timing and amount of further funding has not yet been determined.

Economic Development – Radio Spectrum Rights (unchanged, unquantified risk)

The Government sets the processes for the renewal or auction of property rights to radio spectrum in consultation with industry. Offers for rights of renewal to existing owners of spectrum rights are set approximately five years in advance of rights expiring from 2010 onwards with settlement being required prior to granting the new right. If any offers are rejected then they will be allocated by way of auction on the open market. (For this reason the expected revenue from the sale of renewal rights is not reflected in current forecasts of revenue.)

Education – Additional Funding for School Property (new, unquantified risk)

The Government is considering providing additional funding of $500 million for school property. It provided significant funding in Budget 2009 towards this objective ($325.6 million in capital and $197.7 million in operating), on top of a further $28 million earlier in 2009. Additional funds may be required in order to meet roll growth and demographic change. The Government is also committed to increasing the range of schools that parents can choose to send their children to, which could potentially increase the level of property or other funding required. The cost would depend on the option chosen and the ability of the proposal to be funded within existing baselines.

Education – Early Childhood Education Funding (new, quantified risk)

The Government may consider increasing early childhood education (ECE) funding in future years. Any additional costs would depend on the option chosen and the ability of the proposal to be funded within existing baselines. Inflation adjustments for non-salary ECE costs would cost $63 million over the forecast period. Funding has been set aside in Budget 2009 in contingency for an adjustment to 2009/10 ECE funding rates.

Education – Early Childhood Education Participation (new, unquantified risk)

The Government is considering ways in which ECE participation of groups which are currently under-represented might be increased. Any costs would depend on the option chosen and the ability of the proposal to be funded within existing baselines.

Education – Early Childhood Education Ratio Changes (new, quantified risk)

The Government is considering decreasing the adult to child ratio in ECE centres for under-two-year-olds from 1:5 to 1:4. The Ministry of Education has estimated that the cost of implementing this ratio change would be approximately $55 million per annum.

Education – Integrated School property (new, unquantified risk)

Requests have been made by integrated schools for the Government to provide funding support for property costs at new schools. The Government has not yet considered these proposals; any costs would depend on the decisions taken by the Government.

Education – IT Broadband Funding (new, quantified risk)

The Government is considering providing $150 million of extra funding to upgrade schools to make them ready for fast broadband access. The Government has to date committed $34 million towards this objective. Any additional costs would depend on the option chosen and the ability of the proposal to be funded within existing baselines.

Education – School Operational Grants (new, quantified risk)

The Government has historically increased school operating grants in each Budget. Any funding for school operations grants would depend on the circumstances and the ability of the proposal to be funded within existing baselines. It has been estimated that increases equivalent to forecast inflation between 2010/11 and 2012/13 would cost $70 million over the forecast period.

Education – School Staffing Entitlements (new, quantified risk)

The Government has indicated it will review the complexity of formula-driven staffing entitlements and funding streams administered by the Ministry of education and schools. If there was no change this would have operating costs of $45 million in 20011/12 and $50 million in 2012/13 and outyears.

Education – Te Whare Wānanga o Awanuiārangi (changed, unquantified risk)

Te Whare Wānanga o Awanuiārangi has declared its wish to discuss in the context of the Wai 718 treaty settlement process the repatriation of funding from the Crown based on its concern that there may have been a breach of the Deed of Settlement. This is in addition to the $8.5 million that was agreed with Te Whare Wānanga o Awanuiārangi as part of its settlement with the Crown in 2003. The facts of this allegation are currently being investigated by the Crown Law Office.

Education – Trades Academies (new, quantified risk)

The Government intends to establish five trades academies by the end of 2011. Trades academies will offer secondary students new options for training towards vocational qualifications and transitions to employment. The Government has announced that the first trades academy is being planned to open in 2010 at Southern Cross Campus, Mangere. Capital funding of up to $6 million for this is included in Budget 2009 provisions for school property, and will be subject to approval of a detailed business case and implementation plan.

The cost of establishing four more trades academies will depend on how they are designed and operated, and could range between $10 million and $20 million. Trades academies will be funded in part from existing capital and operating appropriations for schooling and tertiary education.

Education – Youth Guarantee (new, quantified risk)

Decisions are required on the timing and nature of the full roll-out of the Youth Guarantee. The programme could eventually have an operating cost of as much as $65 million per annum. Any costs would depend on the development of the Youth Guarantee programme and the ability to fund proposals within existing baselines.

Education, Social Development and Revenue – Medical Training Places (new, quantified risk)

The Government has considered funding 200 additional medical training places over five years. Sixty additional medical places have been funded in Budget 2009. Proceeding with the remaining 140 places would require additional funding, although final costs would depend on the option chosen and the ability of the proposal to be funded within existing baselines. This is currently estimated to be $10.9 million per annum operating and $2.5 million per annum capital by 2013/14, and grows beyond the forecast period.

Finance – Crown Overseas Properties (unchanged, quantified risk)

The Government owns a number of overseas properties, including New Zealand House in London. Depending on the Government's future intentions for this building, an upgrade may be required. Preliminary cost estimates for this upgrade total $150 million over the five-year period 2009/10 to 2013/14.

Finance – Crown Retail Deposit Guarantee Scheme (new, quantified risk)[4]

The Government operates an opt-in Retail Deposit Guarantee Scheme over financial institution deposits. The objective of the two-year scheme is to ensure ongoing retail depositor confidence in New Zealand's financial system, given the international financial market turbulence. A total of 86 financial institutions have been approved under the scheme. These are listed on the Treasury website. Deposits totalling $126 billion are

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4 The Government has also established a Wholesale Funding Guarantee Facility. This facility is not included as a specific fiscal risk as the Government assesses the likelihood of a call on this scheme as remote.

under guarantee. The Government is also considering possible successor arrangements for the Deposit Guarantee Scheme, which is scheduled to expire in October 2010.

The Government reviews monthly the need for a provision against its contingent liability under the guarantees. Although calls on the guarantees remain a possibility, the Government does not assess the likelihood of further defaults by any individual deposit-takers as being probable at this stage. Therefore, provision has only been included in the financial statements of Government for those entities that are currently in default. Any call on the guarantees would be offset against the recovery of the remaining assets of the relevant financial institution.

The Government assesses the potential loss associated with the guaranteed entities as being in the range of $650 million to $700 million under a liquidation scenario for all guaranteed non-bank deposit-taker (NBDT) entities. The liquidation scenario assumes that all guaranteed NBDT entities default, but that default does not expose the Crown to a potential loss in all instances.

The Government's assessment of its potential loss of $650 million to $700 million is in line with the original publicly released estimate, in which the Government assessed the potential loss associated with the guaranteed entities as being in the range of $462 million to $945 million, with a midpoint of $704 million.

Finance – Government Commitments to International Financial Institutions (new, unquantified risk)

The forecast level of government commitments to international financial institutions is subject to change, depending on the Government's response to any changed financial plans on the part of these institutions.

Finance – KiwiSaver (new, unquantified risk)

The forecasts in relation to KiwiSaver policies are dependent on a number of assumptions and projections, such as uptake and contribution rates, all of which may change through time. In the current economic environment, factors such as reduced automatic enrolment, financial market disruption and low consumer confidence increase forecast uncertainty.

Finance – New Zealand Superannuation Fund (new, unquantified risk)

The Government has suspended contributions to the New Zealand Superannuation Fund for the period until the operating balance returns to a sufficient surplus. The Government will make a one-off contribution to the fund of $250 million in 2009/10 and will consider, on an annual basis, whether to make any further one-off contributions before the required rates of contribution are resumed. The level of contribution to the fund, and any changes to the rate of return or remeasurements of the fund, would have fiscal implications which could increase or decrease net debt.

Finance – Potential Merger of Lincoln University and AgResearch Limited (new, unquantified risk)

Lincoln University and AgResearch Limited are currently preparing a business case for a proposed merger of the two entities. This may lead to the seeking of a capital injection from the Government to support transition, and there may also be other fiscal implications associated with any merger.

Health – Additional WellChild Visits (new, quantified risk)

The Government is considering providing funding for three additional WellChild visits during the first nine weeks of a baby's life. The initiative has not been funded in Budget 2009, and has been deferred for consideration in future Budgets.

If approved, the indicative cost of this initiative would be $15.360 million operating in 2010/11 and outyears.

Health – Building Dedicated Elective Theatres (new, quantified risk)

The Government is considering funding 20 dedicated elective surgery theatres, with associated beds and facilities. In Budget 2009, $20 million in 2009/10 and outyears has been allocated to ensure that the appropriate number and mix of staff for the new theatres are trained. However, funding has not been allocated for the operating costs and capital funding above what is being provisioned for these theatres in Budget 2009.

If approved, the indicative cost of this initiative would be $20 million operating in 2010/11 and $40 million in 2011/12 and outyears and $36 million capital.

Health – Caregiver Employment Conditions (new, unquantified risk)

An Employment Court case regarding caregiver sleepover employment conditions for third party employed caregivers is currently awaiting judgement. A judgement in favour of the caregivers would require consideration of the repercussions for the Crown.

Health – District Health Board Deficits (changed, unquantified risk)

Several District Health Boards (DHBs) have projected operating deficits in 2009/10. The Government has stated that it does not view projected DHB operating deficits as acceptable and the Ministry of Health is working with DHBs to develop financial recovery plans. The Government has set aside funding in Vote Health to meet deficit requirements anticipating that the DHB deficit position will improve in the future.

Health – Demographic and Cost Pressures (new, unquantified risk)

Demographic and cost pressures have historically been allocated specific funding. The Government is considering how best to enable the sector to manage pressures from input-price inflation and demographic changes to maintain service access levels.

Health – Funding Increase for Subsidised Medicines (new, quantified risk)

Budget 2009 provided $40 million per annum to increase spending on pharmaceuticals. The Government is considering an increase of $180 million over three years. If approved, the indicative cost of this initiative would be $60 million operating in 2010/11, and $80 million in 2011/12 and outyears.

Health – National Systems Development Programme (new, unquantified risk)

The National Systems Development Programme (NSDP) is a major IT project to stabilise and upgrade core national health systems and collections. The project was originally scoped and signalled to Cabinet as a $104 million capital project, of which $35 million has been appropriated to date. The deliverables for the programme are currently under review and the scope and total cost may change.

Health – Payment of Family Caregivers (new, quantified risk)

An Employment Court case regarding compensation for family member carers of disabled children is currently awaiting judgement. Further policy work will need to be developed should the Employment Court find in favour of family caregivers. At this time, possible costs are indicatively estimated to be up to $600 million in 2009/10 and outyears.

Health – Purchase of Pandemic Strain Vaccine (new, unquantified risk)

In the event of a pandemic, the Government would likely have to purchase sufficient vaccine to protect the population.

Health – Sector Capital (new, quantified risk)

DHBs have identified a range of capital expenditure projects to replace or update assets, and to provide for population growth, especially in the Auckland region. The Government is considering how to address these pressures and improve service planning and asset management capability. At this time, possible costs are indicatively estimated to be between $150 million and $400 million per annum.

Housing – Gateway Housing (new, quantified risk)

The Government is considering developing Crown-owned land for first-home buyers to have use of the “ready-to-build” sections (either free or leased for a maximum of 10 years) to build new homes on provided construction commences within one year. The Government may consider funding the development of this land for new houses and subsidising the cost of leasing the land to first-home buyers over 10 years. This initiative may be provided directly, or in partnership with community housing organisations.

The indicative capital cost for developing Gateway land between now and June 2011 is estimated to be $30 million to $48 million. Assuming the same level of uptake and land development, this could equate to $60 million to $96 million over the forecast period.

Housing – Tamaki (changed, quantified risk)

The Government is considering the Tamaki Transformation Programme, a multi-agency initiative to regenerate this Auckland suburb over 20 years. The initial phase of the redevelopment proposal can be undertaken over the next three years within the existing baselines of the agencies involved. There is a risk that some options for the remainder of the development, beyond the initial phase, may require additional capital and operating funding.

It is estimated that the gross capital requirement of the further options could be up to $1.2 billion and the gross operating requirement could be up to $320 million.

Immigration – Immigration Business Transformation (changed, quantified risk)

In late 2008 the Department of Labour completed a Stage 2 Business Case for Immigration Business Transformation. It proposes an integrated approach to upgrading immigration services with a focus on securing New Zealand's borders and bringing the immigration system up to date with emerging international requirements such as biometrics and identity management. Were this project to go ahead the major costs would be a rebuild existing ICT infrastructure.

The recommended option includes a mix of Government funding and fee revenue. Estimated implementation costs (less fee revenue) are $106.78 million over four years from 2009/10 to 2013/14, and there are ongoing operating costs of $21.7 million from 2013/14.

Immigration – Redevelopment of Mangere Refugee Centre (new, quantified risk)

The existing refugee facilities at Mangere may need refurbishment. Initial estimated costs of the refurbishment are $5 million operating and $24 million capital.

Justice – Greater Auckland Service Delivery Strategy (unchanged, quantified risk)

The Government is developing a strategy to address court needs in the greater Auckland region. A wide range of stakeholders are currently being consulted over a variety of service delivery options.

Initiatives that are likely to be put forward for consideration as part of this strategy include establishing dedicated civil and family courthouses, establishing specialist and purpose-built jury courthouses, establishing a service centre to deal with customer enquiries and process bulk work, moving to electronic filing and an electronic court record, moving file storage offsite to a specialist external provider and establishing Community Justice Centre(s). As the strategy develops, full business cases are expected to identify priority projects and more detailed costings.

The total cost could be up to $265 million.

Justice – Review of the Legal Aid System (new, unquantified Risk)

The Government has initiated a review of the Legal Aid System is required to consider how the system can be best structured to deliver effective legal services in a cost-effective, sustainable way. The outcomes of the review will be presented to Cabinet in December 2009, with implementation planned for early 2010.

New Zealand Defence Force – Defence Review 2009 (new, unquantified risk)

The Government has approved terms of reference for a Defence Review and subsequent Defence White Paper. This process is expected to be completed by 30 March 2010. Included in the Defence Review is an examination of financial management procedures to meet the long-term defence funding requirements.

The Defence Review is likely to present a range of options with different funding implications.

New Zealand Defence Force – Future Operationally Deployed Forces Activity (changed, quantified risk)

There are currently over 400 New Zealand Defence Force personnel deployed overseas on Peace Keeping and United Nations missions. Existing baseline funding is expected to provide for the deployments in Afghanistan, East Timor, the Solomon Islands and several other locations during 2008/09 and 2009/10.

The forthcoming Defence Review 2009 will consider future funding requirements for a range of operational commitments in the context of Government's wider defence, foreign policy and fiscal position. Maintaining existing deployment levels would result in an increased annual operating balance impact of some $30 million from 2010/11.

New Zealand Defence Force – Sale of Skyhawks and Aermacchi Trainers (changed, quantified risk)

New Zealand's application to sell the former Air Combat Force aircraft awaits approval by the US Congress.

Should the sale be permitted, at a contract value of US$110 million, the net proceeds from the sale are expected to be around NZ$170 million.

Police and Corrections – Property and Flow-on Impacts of Additional Police Staff (new, quantified risk)

The Government has agreed to fund an additional 600 Police staff in Budget 2009. Property requirements for these staff have been funded for the first two years of implementation. There will be additional property requirements (mainly relating to new or replacement Police Stations) in 2011/12 and 2012/13, which are expected to cost up to $64 million capital, with an associated operating cost of up to $20 million.

The additional Police are expected to have a further impact on Vote Corrections. Depending on how the additional Police are deployed, higher numbers of offenders may be sentenced to both custodial and community sentence.

Police – Digital Radio Network Full Implementation (changed, quantified risk)

The Government has previously funded the partial implementation of a Digital Radio Network in Wellington, Auckland and Christchurch, to be completed by December 2010. The next phase is to move to full implementation of a National Digital Radio Network, beginning in 2011.

Full implementation is expected cost up to $150 million capital and up to $76 million operating.

Revenue – Aligning Portfolio Investment Entity Rates with New Personal Tax Rates (new, quantified risk)

The Government is working towards aligning the Portfolio Investment Entity (PIE) tax rates with the new personal tax rate structure. Depending on design decisions, this is expected to cost around $20 million operating per annum.

Revenue – Bad Debt Write-offs Relating to Crown Debt Administered by Inland Revenue (new, quantified risk)

Inland Revenue forecasts the level of bad debt write-offs based on historical information and assumptions about future debt levels. There is a risk that bad debt write-offs vary from the amount included in forecasts.

Such variance could have a positive or negative fiscal impact of up to $75 million.

Revenue – Base Maintenance and Broadening (new, unquantified risk)

The Government has established a Tax Working Group to consider the medium-term direction of the tax system and assist the government in assessing policy options, including options to broaden and maintain the tax base, the structure of personal income tax, corporate tax, GST and tax integrity. Depending on the options chosen, any changes implemented would either decrease or increase tax revenue.

Revenue – Cash Held in Tax Pools (new, unquantified risk)

Funds held in tax pools are recognised as an asset to the Crown. There is a risk that funds held in these pools, over and above a customer's provisional tax liability, may be withdrawn, resulting in an unquantified cash loss to the Crown.

Revenue – Charitable Giving (new, unquantified risk)

Officials are investigating possible tax incentives for charitable giving, including gift aid and changes in the tax treatment of non-monetary gifts.

Revenue – Child Support – Shared Care (new, unquantified risk)

A government discussion document will be released this year on shared care in the child support formula, including taking into account the incomes of both parents and the costs of children. Any changes would have administrative costs for Inland Revenue.

Revenue – Goods and Services Tax – Business to Business Transactions (new, quantified risk)

The Government is considering options around GST on property transactions. The options considered include both administrative and legislative changes, and could increase revenue collections by up to $50 million per annum.

Revenue – Impairment of Crown Debt Administered by Inland Revenue (new, quantified risk)

Inland Revenue administers Crown debt relating to general tax and family support. The Crown debt included in these forecasts was last tested for impairment at 30 June 2008. The asset will be next tested for impairment at 30 June 2009. The outcome of the valuation could have a negative impact of up to $50 million or a positive impact of up to $200 million.

Revenue – Imputation (new, unquantified risk)

Aspects of the current imputation system are being reviewed. This includes whether companies should be able to stream imputation credits, and the refundability of imputation credits, particularly to charities.

Revenue – Inland Revenue Operations (new, unquantified risk)

As part of a broader programme to change the way that Inland Revenue operates, changes could be made to policies implemented by Inland Revenue. Student Loans, Working for Families, the Pay As You Earn (PAYE) collection system and company tax forms could all be materially changed, with corresponding impacts on tax revenue.

Revenue – International Tax Review (new, unquantified risk)

A number of proposals will be considered, and possibly progressed, as part of Phase II of the international tax review. Since all these proposals involve exempting income in particular circumstances, they may, if progressed, have a negative impact on tax revenue.

Revenue – Investment in the Tax System and Related Business (changed, unquantified risk)

Inland Revenue is investigating options around investment in the tax system and related business processes, including replacing the FIRST tax system. Part of this work includes investigating options for transforming employer information and payments.

Revenue – Mutual Recognition and the Australian Tax Review (new, unquantified risk)

The Government made a submission in October 2008 to the review, Australia's Future Tax System, making a case for mutual recognition of imputation/franking credits. The review will be reported to the Australian Government in December 2009. The outcome of the review may affect tax revenue in New Zealand.

Revenue – Potential Tax Policy Changes (new, unquantified risk)

The Government is considering changes to various tax policies. Areas under consideration include Use of Money Interest (UOMI), provisional tax, deductions for certain capital expenditure and the treatment of cross-border leases and hybrid financial arrangements. It is unclear what policy changes, if any, will be made at this stage.

Depending on the options chosen, any changes implemented would either decrease or increase tax revenue.

Revenue – Rebuild of the Student Loan IT System (changed, unquantified risk)

The Government is considering options for redesigning the Student Loan IT system.

Revenue – Reducing Compliance Costs for Small- and Medium-sized Enterprises (changed, unquantified risk)

The Government is considering measures to simplify the tax rules for small- and medium-sized enterprises, pursuant to a government discussion document released in December 2007. Any measures that are pursued could have a material impact on tax revenue.

Revenue – Reinstatement of Deferred Tax Cuts (new, quantified risk)

The Government has agreed to delay the April 2010 and April 2011 tranches of the planned tax cuts. The Government will reconsider these tax cuts when economic and fiscal conditions permit.

Reinstating these particular tax cuts would cost around $900 million per annum (dependent on when they are reintroduced).

Revenue – Renegotiation of Double Tax Agreements (changed, unquantified risk)

Lower rates of Non-Resident Withholding Tax (NRWT) were included in a Protocol amending the United States Double Tax Agreement (DTA). A government discussion document has suggested lower rates be included in the Australian DTA, which is currently being renegotiated. A lower NRWT rate in the Australian DTA would decrease tax revenue.

Revenue – Resident Withholding Tax Alignment (new, unquantified risk)

The Government is considering changes to resident withholding tax (RWT) rates to align with the new personal tax rates.

Revenue – Revenue Implications of Recommendations from the Capital Market Development Taskforce (new, unquantified risk)

The Capital Markets Development Taskforce is expected to report to Government later in the year. Recommendations could include tax changes and regulatory changes which impact on tax revenue.

Depending on the options chosen, any changes implemented would either decrease or increase tax revenue.

Revenue – Revenue Implications of Recommendations from the Jobs Summit (new, unquantified risk)

The Jobs Summit has made recommendations for possible tax and regulatory changes. Possible tax reforms may be considered and consulted on as a result of the Jobs Summit.

Revenue – Student Loan Early Repayment Bonus (new, quantified risk)

The cost of the 10% bonus for voluntary student loan repayments has been built into the forecasts. This policy increases uncertainty of forecasts which are already sensitive to assumptions and projections. Incorrect assumptions of take up and other factors could increase revenue by up to $75 million or increase costs by up to $189 million.

Revenue – Tax Consequences of Residential Mortgage Backed Securities (new, quantified risk)

The Reserve Bank has recently commenced longer-term lending to trading banks. In return for funds, the banks provide security by way of residential mortgage backed securities (RMBS). The Government is reviewing the tax consequences of RMBS, with a view to ensuring that their creation does not automatically trigger a base price adjustment under the financial arrangement rules. Remaining with the status quo could lead to tax revenue volatility of more than $100 million per annum.

Revenue – Tax Treatment of Social Assistance Programmes (new, unquantified risk)

The Government is investigating legislative solutions to fix loopholes in the tax treatment of social assistance programmes. Specific measures have not yet been identified but any changes are likely to have a positive impact on tax revenue.

Revenue and Social Development – Impairment of Debt Relating to Student Loans (new, quantified risk)

The student loan assets included in these forecasts were last tested for impairment at 30June 2008. The assets have been updated subsequently to reflect new borrowings, interest unwind and repayments. The assets will be tested for impairment at 30 June 2009.

The outcome of the valuation could have a positive or negative impact of up to $500 million on the student loan assets.

Reviews of the Delivery of Public Services (new, unquantified risk)

The Government has announced its intention to deliver more public services, more effectively, for fewer resources. The Government may undertake one or a number of value-for-money in-depth reviews over the next 12 months. Reviews may be tasked with identifying areas of expenditure that are not efficient, effective or aligned to government policy, or could be delivered differently. Reviews may recommend changes to service delivery and/or free up resources for reprioritisation within the vote (or within the organisation) or be returned to the centre to meet pressures in other areas. Reviews of government activities which result in improved cost-effectiveness are likely to have a positive impact on the fiscal position.

Risk to Third Party Revenue (new, unquantified risk)

A wide range of government activities are funded through third party fees and charges. With a decrease in economic activity, there is a risk that decreases in third party revenue streams will require changes to service delivery with transitional costs to the Crown. For example, decreases in Customs revenue or in levies on building activity may mean that some activities are temporarily unable to be fully cost-recovered and the Government will need to transition out of an activity or temporarily subsidise that activity.

Social Development – Extending Part-Time Work Obligations (new, unquantified risk)

The Government is considering introducing part-time work obligations for sickness and invalid beneficiaries assessed as able to work part time, and for domestic purposes beneficiaries when their youngest dependent child turns six.

The introduction of a more graduated system of benefit sanctions for non-compliance with work obligations is also being considered.

Social Development – Increasing the Abatement-free Income Threshold (new, quantified risk)

The Government is considering increasing the abatement-free income threshold for main benefits from $80 per week to $100 per week, including non-qualifying spouses of people receiving New Zealand Superannuation.

Increasing the abatement-free threshold to $100 would mean that people who receive a main benefit will be able to earn an additional $20 a week before their benefit payment is reduced.

If approved, the cost of this initiative would be approximately $26.5 million per annum.

State Sector Employment Agreements (new, unquantified risk)

A number of large collective agreements are due to be renegotiated in the short to medium term. As well as direct fiscal implications from any changes to remuneration, the renegotiation of these agreements can have flow-on effects to remuneration in other sectors. The Government has signalled an expectation for restraint given the current economic environment and conditions in the private sector.

Treaty Negotiations – Office of Treaty Settlements Landbank (new, unquantified risk)

The Government is considering the purchase of a higher number and value of properties, as a result of a higher number and value of properties being identified as of interest to iwi as part of the Treaty settlement process. Any increase in 2009/10 might be offset by reductions in Landbank spending in future years.

Transport – Auckland Metro Rail (new, quantified risk)

The Government has decided in principle that the new Auckland Metro rail units will be owned by KiwiRail. The total cost of rolling stock is estimated at $500 million. Final decisions on the structure of the acquisition are likely in 2009 and these will impact on the Government's exposure.

Transport – New Zealand Railways Corporation Operating Support (new, quantified risk)

Budget 2009 provided operating support of $90 million for KiwiRail for 2009/10 only. If KiwiRail is unable to operate in a fully commercial manner from 2010/11 onwards, the Government may decide to provide operating support beyond 2009/10.

Contingent Liabilities

Contingent liabilities are costs that the Government will have to face if a particular event occurs. Typically, contingent liabilities consist of guarantees and indemnities, legal disputes and claims, and uncalled capital. The contingent liabilities facing the Government are a mixture of operating and balance sheet risks, and they can vary greatly in magnitude and likelihood of realisation.

In general, if a contingent liability were realised it would reduce the operating balance and increase net debt. However, in the case of contingencies for uncalled capital, the negative impact would be restricted to net debt.

Where contingent liabilities have arisen as a consequence of legal action being taken against the Crown, the amount shown is the amount claimed and thus the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the amount of any award against the Crown.

Only contingent liabilities involving amounts of over $10 million are separately disclosed. Contingent liabilities below $10 million are included in the “other quantifiable contingent liabilities” total.

Contingent liabilities have been stated as at 31 March 2009, being the latest set of contingent liabilities received.

Quantifiable Contingent Liabilities

Guarantees and indemnities	Status[5]	($ million)
Cook Islands – Asian Development Bank loans	Changed	17
Glenharrow Holdings Limited – LINZ	New	12
Indemnification of receivers and managers – Terralink Limited	Unchanged	10
Ministry of Transport – funding guarantee	Unchanged	10
Guarantees and indemnities of SOEs and Crown entities	Changed	40
Other guarantees and indemnities	Changed	18
		107
Uncalled capital		
Asian Development Bank	Changed	1,459
European Bank for Reconstruction and Development	Changed	16
International Bank for Reconstruction and Development	Changed	1,455
Other	Changed	42
		2,972
Legal proceedings and disputes		
Health – legal claims	Changed	16
Kapiti West Link Road	New	25
Tax in dispute	Changed	209
Other legal claims	Changed	97
		347
Other quantifiable contingent liabilities		
Air New Zealand Limited	New	36
International finance organisations	Changed	2,136
New Zealand Export Credit Office – export guarantees	Changed	127
Reserve Bank – demonetised currency	Unchanged	23
Other quantifiable contingent liabilities of SOEs and Crown entities	Changed	43
Other quantifiable contingent liabilities	Changed	72
		2,437
Total quantifiable contingent liabilities		**5,863**

5 Relative to reporting in the 30 June 2008 *Financial Statements of the Government of New Zealand*.

Unquantifiable Contingent Liabilities

Guarantees and indemnities	Status
Airways New Zealand	New
Asure Quality New Zealand Limited (formerly AgriQuality Limited)	Changed
At Work Insurance Limited	Unchanged
Bona Vacantia property	Unchanged
Building Industry Authority	Unchanged
Earthquake Commission (EQC)	Unchanged
Electricity Corporation of New Zealand Limited (ECNZ)	Unchanged
Ministry of Fisheries – indemnity provided for delivery of registry services	Unchanged
Genesis Power Ltd (Genesis Energy)	Unchanged
Geothermal carbon tax indemnity	Unchanged
Housing New Zealand Corporation (HNZC)	Unchanged
Huntly East Subsidence Policy	New
Indemnification of touring exhibitions	New
Indemnities against acts of war and terrorism	Unchanged
Justices of the Peace, Community Magistrates and Disputes Tribunal Referees	Unchanged
Maui Partners	Unchanged
National Provident Fund	Unchanged
New Zealand Railways Corporation	Unchanged
Persons exercising investigating powers	Unchanged
Public Trust	Unchanged
Reserve Bank of New Zealand	New
State Insurance and Rural Bank – tax liabilities	New
Synfuels-Waitara Outfall Indemnity	Unchanged
Tainui Corporation	Unchanged
Other unquantifiable contingent liabilities	
Abuse claims	Unchanged
Accident Compensation Corporation (ACC) litigations	Unchanged
Air New Zealand litigation	Unchanged
Environmental liabilities	Unchanged
Rugby World Cup 2011 – joint venture arrangements	Unchanged
Treaty of Waitangi claims	Unchanged
Treaty of Waitangi claims – settlement relativity payments	Changed
Other contingencies	
Foreshore and seabed	Unchanged

The following unquantified contingent liabilities have been removed from the above list:

- Auckland Rail Lease
- Ports of Auckland
- Toll NZ Limited – purchase of rail network assets

Statement of Contingent Liabilities

Quantifiable Contingent Liabilities

Guarantees and indemnities

Guarantees and indemnities are disclosed in accordance with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets.* In addition, guarantees given under Section 65ZD of the Public Finance Act 1989 are disclosed in accordance with Section 26Q(3)(b)(i)(B) of the same act.

Cook Islands – Asian Development Bank (ADB) loans

Before 1992, the New Zealand Government guaranteed the Cook Islands' borrowing from the ADB. These guarantees have first call on New Zealand's Official Development Assistance.

$17 million at 31 March 2009 ($14 million at 30 June 2008).

Glenharrow Holdings Limited – Land Information New Zealand

Glenharrow Holdings Limited is suing the Crown and the West Coast Regional Council for damages for the cancellation of its mining licence.

$12 million at 31 March 2009 ($12 million at 30 June 2008).

Indemnification of receivers and managers – Terralink Limited

The Crown has issued a Deed of Receivership indemnity to the appointed receivers of Terralink Limited against claims arising from the conduct of the receivership.

$10 million at 31 March 2009 ($10 million at 30 June 2008).

Ministry of Transport – funding guarantee

The Minister of Finance has issued a guarantee of $10 million to the Transport Accident Investigation Commission. The guarantee allows the Commission to assure payment to suppliers of specialist salvage equipment in the event of the Commission initiating an urgent investigation of any future significant transport accident.

$10 million at 31 March 2009 ($10 million at 30 June 2008).

Guarantees and indemnities of SOEs and Crown entities

$40 million at 31 March 2009 ($40 million at 30 June 2008).

Other guarantees and indemnities

$18 million at 31 March 2009 (nil at 30 June 2008).

Uncalled capital

The Crown's uncalled capital subscriptions are as follows:	**Uncalled capital at 31 March 2009 $m**	**Uncalled capital at 30 June 2008 $m**
Asian Development Bank	**1,459**	1,081
European Bank for Reconstruction and Development	**16**	14
International Bank for Reconstruction and Development	**1,455**	1,077
Miscellaneous	**42**	33
	2,972	2,205

Legal proceedings and disputes

The amounts under quantifiable contingent liabilities for legal proceedings and disputes are shown exclusive of any interest and costs that may be claimed if these cases were decided against the Crown.

Where contingent liabilities have arisen as a consequence of legal action being taken against the Crown, the amount shown is the amount claimed and thus the maximum potential cost. It does not represent either an admission that the claim is valid or an estimation of the possible amount of any award against the Crown.

Health – legal claims

Claims against the Crown in respect of alleged negligence for failing to screen blood for Hepatitis C when screening had first become available, resulting in people allegedly contracting Hepatitis C through contaminated blood and blood products.

$16 million at 31 March 2009 ($39 million at 30 June 2008).

Kapiti West Link Road

Court action has been filed against the New Zealand Transport Agency to have the land held for the Kapiti West Link Road released for sale. The maximum liability is $25 million.

$25 million at 31 March 2009 (nil at 30 June 2008)

Tax in dispute

Represents the outstanding debt of those tax assessments raised, against which an objection has been lodged and legal action is proceeding.

$209 million at 31 March 2009 ($249 million at 30 June 2008).

Other legal claims

$97 million at 31 March 2009 ($95 million at 30 June 2008).

Other quantifiable contingent liabilities

Air New Zealand Limited

The Group has a partnership agreement with Christchurch Engineering Centre in which it holds a 49 percent interest. By the nature of the agreement joint and several liability exists between the two parties.

$36 million at 31 March 2009 ($36 million at 30 June 2008).

International finance organisations

The Crown has lodged promissory notes with the International Monetary Fund. Payment of the notes depends upon the operation of the rules of the organisation.

$2,136 million at 31 March 2009 ($1,727 million at 30 June 2008).

New Zealand Export Credit Office – export guarantees

The New Zealand Export Credit Office (NZECO) provides a range of guarantee products to assist New Zealand exporters. These NZECO guarantees are recorded by the Crown as contingent liabilities. The amount of future liabilities arising from these guarantees is expected to be minor.

$127 million at 31 March 2009 ($37 million at 30 June 2008).

Reserve Bank – demonetised currency

The Crown has a contingent liability for the face value of the demonetised $1 and $2 notes issued which have yet to be repatriated.

$23 million at 31 March 2009 ($23 million at 30 June 2008).

Other quantifiable contingent liabilities of SOEs and Crown entities

$43 million at 31 March 2009 ($106 million at 30 June 2008).

Other quantifiable contingent liabilities

$72 million at 31 March 2009 ($66 million at 30 June 2008).

Unquantifiable Contingent Liabilities

Accounting standard NZ IAS 37 requires that contingent liabilities be disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Disclosure of remote contingent liabilities is only required if knowledge of the transaction or event is necessary to achieve the objectives of general purpose financial reporting. This part of the Statement provides details of those contingent liabilities of the Crown which cannot be quantified (remote contingent liabilities are excluded).

Guarantees and indemnities

Airways New Zealand

The Crown has indemnified Airways Corporation of New Zealand Limited as contained in Airways' contract with the New Zealand Defence Force for the provision of air traffic control services. The indemnity relates to any claim brought against Airways by third parties arising from military flight operations undertaken by the Royal New Zealand Air Force.

AsureQuality Limited (formerly AgriQuality Limited)

The Crown has indemnified the directors of AsureQuality Limited in the event that they incur any personal liability for redundancies arising from any agreement by international trading partners that allows post-mortem meat inspection by parties other than the Ministry of Agriculture and Forestry, or its sub-contractor.

At Work Insurance Limited

The Crown has indemnified the liquidators of At Work Insurance Limited (Deloitte Touche Tohmatsu) against various employment-related claims.

Bona Vacantia property

P&O NZ Ltd sought a declaratory judgement that property disclaimed by a liquidator is bona vacantia. A settlement has been reached, which includes a Crown indemnity in favour of New Zealand Aluminium Smelters Limited and Comalco in relation to aluminium dross disposed of in their landfill, for costs that may be incurred in removing the dross and disposing of it at another site if they are required to do so by an appropriate authority. The Minister of Finance signed the indemnity on 24 November 2003. In February 2004, a similar indemnity was signed in respect of aluminium dross currently stored at another site in Invercargill.

Building Industry Authority

The Building Industry Authority (BIA) is a joint defendant in a number of claims before the courts and the Weathertight Homes Resolution Service relating to the BIA's previous role as regulator of the building industry. The BIA has been dis-established and absorbed into the Department of Building & Housing and, to prevent conflicts of interest, Treasury was given responsibility for managing weathertight claims against the BIA on behalf of the Crown from 1 July 2005.

Earthquake Commission (EQC)

The Crown is liable to meet any deficiency in the EQC's assets in meeting the Commission's financial liabilities (section 16 of the Earthquake Commission Act 1993).

Electricity Corporation of New Zealand Limited (ECNZ)

The ECNZ Sale and Purchase Agreement provides for compensation to ECNZ for any tax, levy, or royalty imposed on ECNZ for the use of water or geothermal energy for plants in existence or under construction at the date of the Sale and Purchase Agreement. The Agreement also provides for compensation for any net costs to ECNZ arising from resumption of assets pursuant to the Treaty of Waitangi (State Enterprises) Act 1988.

The Deed of Assumption and Release between ECNZ, Contact Energy Limited and the Crown provides that Contact Energy stands in place of ECNZ for those assets transferred to Contact Energy from ECNZ. As a result of the split of ECNZ in 1999, Ministers have transferred the benefits of the Deed to ECNZ's successors – Meridian Energy Limited, Mighty River Power Limited and Genesis Power Limited.

Under the Transpower New Zealand Limited (Transpower) Sale and Purchase and Debt Assumption Agreements, the Crown has indemnified ECNZ for any losses resulting from changes in tax rules applicable to transactions listed in the Agreements. Additionally, the Crown has indemnified the directors and officers of ECNZ for any liability they may incur in their personal capacities as a result of the Transpower separation process.

Following the split of ECNZ in 1999 into three new companies, the Crown has indemnified ECNZ in relation to all ECNZ's pre-split liabilities, including:

- existing debt and swap obligations
- hedge contracts and obligations
- any liabilities that arise out of the split itself.

Ministry of Fisheries – indemnity provided for delivery of registry services

The Crown has indemnified Commercial Fisheries Services Limited against claims made by third parties arising from Commercial Fisheries Services undertaking registry services under contract to the Chief Executive of the Ministry of Fisheries. This indemnity, provided under the Fisheries Acts 1983 and 1996, expires on 30 September 2009.

Genesis Power Ltd (Genesis Energy)

The Crown has entered into a deed with Genesis Energy to share a specified and limited amount of risk around the sufficiency of Genesis Energy's long term supply of gas to cover the Huntly e3p's (a 385 MW combined cycle gas turbine power station) minimum needs. The agreement sees the Crown compensate Genesis Energy in the event it has less gas than it needs.

Geothermal carbon tax indemnity

As part of the sale and purchase agreement between the Crown and Mighty River Power (MRP), the Crown has agreed to provide an indemnity for the payment of carbon taxes, should legislation be passed that does not allow for an automatic pass-through of the charges to end-users. The indemnity is time bound and contractually limited in the amount that can be claimed. The indemnity is not limited to MRP and will be available to any subsequent owner of the Crown's Kawerau geothermal assets.

Housing New Zealand Corporation (HNZC)

Housing New Zealand Corporation (HNZC) is liable to the owners (ANZ National Bank Limited, Ichthus Limited and Westpac Banking Corporation) of mortgages sold by HNZC during 1992 to 1999 for certain losses they may incur from specified limited aspects of their ownership of those mortgage. The amount of the liability cannot be estimated.

The Crown has provided a warranty in respect of title to the assets transferred to Housing New Zealand Limited (HNZL) and has indemnified HNZL against any breach of this warranty. In addition, the Crown has indemnified HNZL against any third-party claims that are a result of acts or omissions prior to 1 November 1992. It has also indemnified the directors and officers of HNZL against any liability consequent upon the assets not complying with statutory requirements, provided they are taking steps to rectify any non-compliance.

Huntly East Subsidence Policy

The Crown has an obligation to purchase properties affected by mining in the Huntly East area (CAB (97) M 33/7A Refers). The Huntly East Subsidence Policy states that if a property is not sold on the open market within six months, the Crown will buy the property from the vendor at current market value. Until all properties have been purchased by the Crown, this policy will continue. Properties purchased by the Crown are covenanted to protect the Crown from future liability then onsold (generally at a lower value as a result of the covenant on the title).

Indemnification of touring exhibitions

The Crown has a contingent liability for damages and losses under the scheme for indemnifying touring exhibitions. The amount is not disclosed because it is commercially sensitive.

Indemnities against acts of war and terrorism

The Crown has indemnified Air New Zealand against claims arising from acts of war and terrorism that cannot be met from insurance, up to a limit of US$1 billion in respect of any one claim.

Justices of the Peace, Community Magistrates and Disputes Tribunal Referees

Section 197 of the Summary Proceedings Act 1957, requires the Crown to indemnify Justices of the Peace and Community Magistrates against damages or costs awarded against them as a result of them exceeding their jurisdiction, provided a High Court Judge certifies that they have exceeded their jurisdiction in good faith and ought to be indemnified.

Section 58 of the Disputes Tribunal Act 1988 confers a similar indemnity on Disputes Tribunal Referees.

Maui Partners

The Crown has entered into confidentiality agreements with the Maui Partners in relation to the provision of gas reserves information. The deed contains an indemnity against any losses arising from a breach of the deed.

National Provident Fund

The National Provident Fund (NPF) has been indemnified for certain potential tax liabilities. Under the NPF Restructuring Act 1990, the Crown guarantees:

- the benefits payable by all NPF schemes (section 60)
- investments and interest thereon deposited with the NPF Board prior to 1 April 1991 (section 61)
- payment to certain NPF defined contribution schemes where application of the 4% minimum earnings rate causes any deficiency or increased deficiencies in reserves to arise (section 72).

A provision has been made in these financial statements in respect of the actuarially assessed deficit in the DBP Annuitants Scheme (refer to Note 18 in the Forecast Financial Statements).

New Zealand Railways Corporation

The Crown has indemnified the directors of the New Zealand Railways Corporation against any liability arising from the surrender of the licence and lease of the Auckland rail corridor.

The Crown has further indemnified the directors of New Zealand Railways Corporation against any liability arising from the transfer of the rail network and associated assets and liabilities to the Corporation on 1 September 2004.

Persons exercising investigating powers

Section 63 of the Corporations (Investigation and Management) Act 1989 indemnifies the Securities Commission, the Registrar and Deputy Registrar of Companies, members of advising committees within the Act, every statutory manager of a corporation, and persons appointed pursuant to sections 17 to 19 of the Act, in the exercise of investigating powers, unless the power has been exercised in bad faith.

Public Trust

The Crown is liable to meet any deficiency in the Public Trust's Common Fund (section 52 of the Public Trust Act 2001). On 7 November 2008 the Minister of Finance guaranteed interest payable on estates whose money constitutes the Common Fund.

Reserve Bank of New Zealand

Section 21(2) of the Reserve Bank of NZ Act 1989 requires the Crown to pay the Reserve Bank the amount of any exchange losses incurred by the Bank as a result of dealing in foreign exchange under Sections 17 and 18 of the Act. This is a permanent (legislated) liability.

State Insurance and Rural Bank – Tax liabilities

The Crown has granted to the purchasers of the State Insurance Office Limited and the Rural Banking and Finance Corporation Limited an indemnity for certain potential tax liabilities.

Synfuels-Waitara Outfall Indemnity

As part of the 1990 sale of the Synfuels plant and operations to New Zealand Liquid Fuels Investment Limited (NZLFIL), the Crown transferred to NZLFIL the benefit and obligation of a Deed of Indemnity between the Crown and Borthwick-CWS Limited (and subsequent owners) in respect of the Waitara effluent transfer line which was laid across the Waitara meat processing plant site.

The Crown has the benefit of a counter indemnity from NZLFIL which has since been transferred to Methanex Motunui Limited.

Tainui Corporation

Several leases of Tainui land at Huntly and Meremere have been transferred from ECNZ to Genesis Power. The Crown has provided guarantees to Tainui Corporation relating to Genesis Power's obligations under the lease agreements.

Other unquantifiable contingent liabilities

Abuse claims

There is ongoing legal action against the Crown in relation to historical abuse claims. At this stage the number of claimants and outcome of these cases are uncertain.

Accident Compensation Corporation litigations

There are several legal actions against the Accident Compensation Corporation (ACC) in existence, arising in the main from challenges to operational decisions made by ACC. ACC is defending these claims.

Air New Zealand litigation

Air New Zealand has been named in four class actions. One, in Australia, claims travel agents commission on fuel surcharges and two (one in Australia and the other in the United States) make allegations against more than 30 airlines, of anti competitive conduct in relation to pricing in the air cargo business. The allegations made in relation to the air cargo business are also the subject of investigations by regulators in a number of jurisdictions including the United States and the European Union. A formal Statement of Objections has been issued by the European Commission to 25 airlines including Air New Zealand and has been responded to. In the event that a court determined, or it was agreed with a regulator, that Air New Zealand had breached relevant laws, the Company would have potential liability for pecuniary penalties and to third party damages under the laws of the relevant jurisdictions. The fourth class action alleges (in the United States) that Air New Zealand together with 11 other airlines conspired in respect of fares and surcharges on trans-Pacific routes. All class actions are being defended.

Environmental liabilities

Under common law and various statutes, the Crown may have responsibility to remedy adverse effects on the environment arising from Crown activities.

Departments managing significant Crown properties have implemented systems to identify, monitor and assess potential contaminated sites.

In accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets any contaminated sites for which costs can be reliably measured have been included in the Statement of Financial Position as provisions.

Rugby World Cup 2011- joint venture arrangements

The Government has agreed in joint venture arrangements with the New Zealand Rugby Union (NZRU) to an uncapped underwrite of the costs of hosting the 2011 Rugby World Cup, on a loss sharing basis (Crown 67%, NZRU 33%). A provision for the forecast losses has been made in the Government's financial statements.

The Government has agreed to reimburse New Zealand income tax that might be incurred by the joint venture entity (Rugby New Zealand 2011 Limited) or the NZRU in relation to the joint venture entity, and has also agreed to reimburse the NZRU for New Zealand withholding tax that might be incurred on certain payments made in relation to the tournament.

The Government has further agreed to review its level of support to the tournament if the actual tax revenue arising from the tournament exceeds forecasts.

Treaty of Waitangi claims

Under the Treaty of Waitangi Act 1975, any Māori may lodge claims relating to land or actions counter to the principles of the Treaty with the Waitangi Tribunal. Where the Tribunal finds a claim is well founded, it may recommend to the Government that action be taken to compensate those affected. The Tribunal can make recommendations that are binding on the Crown with respect to land which has been transferred by the Crown to an SOE or tertiary institution, or is subject to the Crown Forest Assets Act 1989.

Treaty of Waitangi claims – settlement relativity payments

The Deeds of Settlement negotiated with Waikato-Tainui and Ngāi Tahu include a relativity mechanism. The mechanism provides that, where the total redress amount for all historical Treaty settlements exceeds $1 billion in 1994 present-value terms, the Crown is liable to make payments to maintain the real value of Ngāi Tahu's and Waikato-Tainui's settlements as a proportion of all Treaty settlements. The agreed relativity proportions are 17% for Waikato-Tainui and approximately 16% for Ngāi Tahu. The non-quantifiable contingent liability relates to the risk the amounts payable to Waikato-Tainui and Ngāi Tahu under the relativity mechanism maybe higher than has been provided for in the fiscal forecasts.

Other contingencies

Foreshore and seabed

The Foreshore and Seabed Act 2004 (FSA):

- vests the full legal and beneficial ownership of the public foreshore and seabed in the Crown
- provides for the recognition and protection of ongoing customary rights with respect to the public foreshore and seabed
- enables applications to the High Court to investigate if previously held common law rights have been adversely impacted, and if so, providing for those affected either to participate in the administration of a foreshore and seabed reserve or else enter into formal discussions on redress, and
- provides for general rights of public access and recreation in, on, over, and across the public foreshore and seabed and general rights of navigation within the foreshore and seabed.

The public foreshore and seabed means the marine area that is bounded on the landward side by the line of mean high water spring; and on the seaward side by the outer limits of the territorial sea, but does not include land subject to a specified freehold interest (refer section 5 of the FSA).

The FSA codifies the nature of the Crown's ownership interest in the public foreshore and seabed on behalf of the public of New Zealand. Although full legal and beneficial ownership of the public foreshore and seabed has been vested in the Crown, there are significant limitations to the Crown's rights under the FSA. As well as recognising and protecting customary rights, the FSA significantly restricts the Crown's ability to alienate or dispose of any part of the public foreshore and seabed and significantly restricts the

Crown's ability to exclude others from entering or engaging in recreational activities or navigating in, on or within the public foreshore and seabed. Because of the complex nature of the Crown's ownership interest in the public foreshore and seabed and because we are unable to obtain a reliable valuation of the Crown's interest, the public foreshore and seabed has not been recognised as an asset in these financial statements.

Legal proceedings and disputes

The Crown is currently in dispute with a number of financial institutions regarding the tax treatment of certain structured finance transactions. However, it is not possible to recognise revenue and a tax receivable in the forecast for the transactions because of the fundamental uncertainty regarding the application of tax law to the structured finance transactions. Litigation against these institutions has begun in the High Court in March 2009. It is too early to determine a likely outcome. Court costs awarded for or against the Crown at the resolution of these court cases have also not been forecast in these financial statements.

Some of the financial institutions involved in the dispute have deposited funds into Inland Revenue's tax pooling accounts to mitigate any potential use of money. While these deposits are included the Crown's cash balances, a corresponding liability is recognised until the uncertainty with this application of the tax law to the structured finance transactions is clarified. No repayment of tax pool amounts relating to these structure finance transactions has been forecast.

Quantifiable Contingent Assets

Contingent assets are potential assets dependent on a particular event occurring. As at 31 March 2009, the Crown held quantifiable contingent assets totalling $318 million ($389 million at 30 June 2008).

The major component being:

- $237 million relates to Inland Revenue ($307 million at 30 June 2008), and
- $74 million relates to suspensory loans issued by the Ministry of Education to integrated schools. ($77 million at 30 June 2008).